British Columbia Ferry Commission

Annual Report

for the Fiscal Year Ending March 31, 2011

Prepared and submitted in accordance with Section 53 of the Coastal Ferry Act of the Province of British Columbia

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July 31st 2011

To the Lieutenant Governor in Council

Victoria, BC
July 31st 2011

May It Please Your Honour:

BC Ferry Commission Annual Report
For the Fiscal Year Ending March 31, 2011

I am pleased to submit to you the eighth Annual Report of the BC Ferry Commissioner.

As required by section 53 of the Coastal Ferry Act, the Report sets out briefly all applications and requests for decisions to the commissioner under the Act, all orders issued by the commissioner, the financial statements applicable to the Office of the Commissioner and the opinions of the commissioner as to whether the BC Ferry Authority and the ferry operator have performed their respective obligations under the Act, and, in the case of the ferry operator, whether it has also performed its obligations under the Coastal Ferry Services Contract.

Yours truly,

Gord Macatee
BC Ferry Commissioner

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1 Message from the Commissioners

This is the eighth annual report of the BC Ferry Commission and is submitted in accordance with section 53 of the Coastal Ferry Act ("the Act"). The report includes the opinion of the commissioner regarding the performance of the BC Ferry Authority and the ferry operator, British Columbia Ferry Services Inc. ("BC Ferries"), for the year ended March 31, 2011 ("FY 2010/11"). It also identifies changes that have occurred in the role of the commissioner since the last annual report and summarizes the major activities and decisions of the commissioner during the year. Lastly, the report touches on the review that has been mandated by legislation passed in June 2011 that requires the commissioner to conduct a review of the Act and submit recommendations to the Minister of Transportation and Infrastructure for possible changes which would better enable the balancing of the interests of ferry users and the financial sustainability of the ferry operator.

Key Findings for FY 2010/11 on BC Ferries' Performance

- Met or exceeded frequency and capacity of sailings required in the Coastal Ferry Services Contract (CFSC) for each route.
- Delivered 83,497 round trips compared to 83,236 required under the CFSC.
- Cancelled 465 scheduled sailings primarily due to weather or mechanical failure but provided 726 extra sailings in total.
- Provided capacity to carry the traffic with overall capacity utilization on the designated routes ranging from 21.3% to 76.6%.
- Scored high in on-time performance, reliability and customer satisfaction.
- Earned a pre-tax return on equity of 1.2% compared to the target of 13.18%.

BC Ferry Authority Performance

Under the Act, the purpose and role of the BC Ferry Authority is to do any or all of hold, administer and sell a voting share in BC Ferries and to oversee BC Ferries in relation to the appointment of directors to the board of BC Ferries and the establishment of compensation plans for directors and future executives of BC Ferries in compliance with the Act.

Based on his review of the compliance report submitted by the BC Ferry Authority and discussion with the Chair of its board of directors, the commissioner is of the opinion that *in fiscal 2010/11, the BC Ferry Authority has performed its respective obligations under the Act.*

BC Ferries' Performance

The commissioner is also of the opinion that *in fiscal 2010/11, BC Ferries has performed its respective obligations under the Act as well as under the Coastal Ferry Services Contract ("CFSC").* The company complied with the price caps for all route groups and complied with all of the reporting requirements under the Act. The company also met its contractual obligations to the Province under the CFSC by providing at least the "core" required service on each of its 25 regulated routes.

For the year, BC Ferries improved its overall on-time performance last year to 89.6 per cent sailings departing within 10 minutes of schedule up from 88.6 per cent in the previous year.

As required under the CFSC, BC Ferries conducted their annual customer satisfaction survey which showed that 89 per cent of passengers in 2010 reported to be satisfied overall with their experience travelling on BC Ferries. This is a decrease from 91 per cent reported in 2009. While the overall satisfaction results declined slightly, there have been no significant shifts by individual route. Although ratings for overall satisfaction with **value for money** remain stable, enhancing the customer experience continues to be an area of opportunity for improvement for BC Ferries as 32 per cent of customers are still not satisfied with overall value for money.

As for financial performance, BC Ferries reported net earnings of $3.8 million for FY 2010/11, up slightly from $3.4 million in the previous year. However, the results for the year included a gain of $9.3 million on the sale of BC Ferries' former head office building. Including the gain, the results for FY 2010/11 represent a pre-tax return on equity of 1.2 per cent versus the target of 13.18 per cent established by the commissioner for the second performance term. Excluding the gain, the pre-tax return on equity was a negative 1.8 per cent. A major factor in the shortfall of earnings for BC Ferries was a 1.6 per cent decline in vehicle traffic and a 1.4 per cent decline in passenger traffic in FY 2010/11 compared to the year prior. Despite the shortfall in earnings, cash flow from operations remained positive enabling BC Ferries to retain favourable ratings from major credit rating agencies.

Commissioner Activities, Decisions and Subsequent Events

Last year was very eventful and challenging for the BC Ferry Commission. Not only was the commissioner required to determine preliminary price caps for the next performance term during the year, he assumed significant new responsibilities as a result of the passage of Bill 20 in June 2010, details of which are summarized in Section 2 of this report. The most noteworthy changes include the requirement that the commissioner must now consider the interests of ferry users and must regulate unfair competitive advantage

For most of the year, the commissioner was focused on two major decisions. The first was in relation to the regulation of unfair competitive advantage culminating in Ferry Commission Order 11-01 which was published on February 7, 2011. Under this order, the commissioner determined that BC Ferries was pricing its drop trailer service on its major routes below cost as defined by the commissioner. He also determined that BC Ferries has an unfair competitive advantage over other ferry operators who do not come under the regulatory framework of the Coastal Ferry Act and who are not tax-exempt. Accordingly, the commissioner ordered BC Ferries to comply with a minimum tariff for its drop trailer service on its major routes. The commissioner's reasons for his decision were published on April 29, 2011. This decision was subsequently the subject of a leave application on a question of law to the British Columbia Court of Appeal which has been granted. The hearing is expected sometime in the fall of 2011.

The second major decision was Order 11-02 published on March 31, 2011 setting out the preliminary price caps for the four route groups for the next performance term starting on April 1, 2012 as follows:

- **a 4.15 per cent increase** on April 1 of each year from 2012 to 2015 in average ferry fares **on the major routes** (numbered 1, 2 and 30) from the Lower Mainland to Vancouver Island **and Route 3** (Horseshoe Bay-Langdale); and

- **a 8.23 per cent increase** on April 1 of each year from 2012 to 2015 in average ferry fares **on the northern and minor route groups** which comprise a total of 21 routes.

As a result of issues raised by the commissioner, the provincial government passed legislation in June 2011empowering the commissioner to conduct a review of the Act and to recommend any changes that would better enable him to balance the interests of ferry users and the financial sustainability of the ferry operator. The commissioner's report with recommendations must be submitted to the Minister of Transportation and Infrastructure by January 24, 2012. In the meantime, the determination of the final price caps for the period April 1, 2013 to March 31, 2016 has been deferred until September 30, 2012. The price caps for the first year of third performance term, April 1, 2012 to March 31, 2013 has been legislated at 4.15% for all route groups.

A major change for the Commission occurred on April 30, 2011 when the term of Mr. Martin Crilly as the first commissioner came to an end with Mr. Gord Macatee becoming the new commissioner on May 1, 2011. The

new commissioner and the deputy commissioner wish to express their sincere appreciation and gratitude for Mr. Crilly's dedication to the role of commissioner for the past eight years.

Given the scope of the review to be conducted this fall and possible outcomes, the next year promises to be more demanding and full of activity. The commissioners look forward to the challenges and potential changes in the future as they endeavour to fulfill their mandate under the Coastal Ferry Act.

Gord Macatee
BC Ferries Commissioner

Sheldon Stoilen
Deputy BC Ferries Commissioner

July 31, 2011

2 The Role of the Commission in FY 2010/11

Policy Principles for the BC Ferry Commission
Coastal Ferry Act, s 38

(a) priority is to be placed on the financial sustainability of the ferry operators;
(b) ferry operators are to be encouraged to adopt a commercial approach to ferry service delivery;
(c) ferry operators are to be encouraged to seek additional or alternative service providers on designated ferry routes through fair and open competitive processes;
(d) ferry operators are to be encouraged to minimize expenses without adversely affecting their safe compliance with core ferry services;
(e) cross subsidization from major routes to other designated ferry routes is (i) to be eliminated within the first performance term of the first Coastal Ferry Services Contract to be entered into under this Act, and (ii) before its elimination, to be minimized;
(f) the designated ferry routes are to move towards a greater reliance on a user pay system so as to reduce, over time, the service fee contributions by the government.

The **BC Ferry Commission** regulates ferry operators under the Coastal Ferry Act of 2003. The Province appoints the commissioner and up to two deputy commissioners as statutory officers for six- to eight-year terms. They are independent of both the government and of ferry operators. In August 2003, Martin Crilly of Comox was appointed commissioner. His term expired on April 30, 2011. He was replaced by Gord Macatee of Victoria BC on May 1, 2011. In June 2008, Sheldon Stoilen of Bowen Island was appointed deputy commissioner for a six-year term expiring on June 30, 2014.

Their decisions cannot be appealed, except on a question of law. They may be terminated only for mental infirmity, conviction for an indictable offence under Canada's criminal code, or a judicial finding of conflict of interest or material breach of duties or obligations.

The commissioner is not an ombudsperson acting to resolve any private disputes with ferry operators; nor is it a general complaints or compliments bureau. Further, it is not responsible for regulating safety or environmental impacts of ferry operations.

In exercising its powers as the regulator, the commissioner is obliged to follow six policy principles in protecting the public interest (see box to the left).

BC Ferries was created in April 2003 from the former BC Ferry Corporation, which was a taxpayer-supported Crown corporation. It is now a self-financing company with a mandate to widen travel choices for users and improve service quality.

Under a long-term contract with the Province, BC Ferries must operate its system to provide defined **minimum core service levels** on each of the 25 routes. On three of them, called **major routes,** which are financially self-sufficient, BC Ferries receives no subsidy. On the other 22, the government pays BC Ferries a **ferry transportation or service fee** per-round trip sailing.

The primary responsibility of the commissioner is to **regulate ferry fares**. The commissioner sets a ceiling or "price cap" on the average level of fares which BC Ferries can charge. The goal in setting the price cap is to balance public interests with the financial sustainability of the ferry operator.

The routes are divided into four geographic groups. Each group has its own price cap, which is a ceiling on the weighted average level of the individual fares within the group. The level is reset after every fourth year. Each four-year[1] period is termed a "performance period." In its surveillance of ferry fares, the commissioner ensures that the weighted average of ferry fares, for each of the route groups, does not rise above the cap for each group. If it does, the commissioner may penalize the operator unless corrective action, e.g. reducing fares, is taken within a period of time allowed by the commissioner.

Regulation of Service Quantity

In overseeing the amount or **quantity of service** provided by BC Ferries, the commissioner monitors the adherence of BC Ferries to the terms of its service contract with the Province. The commissioner checks that the numbers of sailings on each route are at a minimum equal to those required in the service contract, subject to an allowance for missed sailings for certain reasons (e.g. bad weather). If there is a shortfall in the quantity of service the operator sacrifices the service fee and may face other more serious consequences.

Regulation of Service Quality

While the broader and less readily measured performance parameter of **service quality** (e.g. on-time performance, reliability, comfort and convenience to customers, or other qualitative dimensions of ferry service) are of great import to ferry customers, the commissioner monitors but does not regulate in this area. To do so would be difficult, inconsistent with the legislature's intention that regulation be exercised in a light-handed fashion.

However, the commissioner does track BC Ferries' regular reports of its on-time performance, and the number of "overload" sailings which depart leaving customers behind in the waiting area. The commissioner also reviews the annual customer satisfaction survey which BC Ferries is contractually obligated to carry out using an outside polling firm.

Pro-competitive Regulation

Although BC Ferries has restrictive service obligations, it also enjoys **privileges as a near-monopoly**. It has exclusive use of terminals, which are facilities of major strategic and competitive importance to an operator. On 22 of its routes (those other than the three major routes), BC Ferries is the sole recipient of taxpayer support. The company is also income-tax exempt. It has the advantages of a large, incumbent operator with flexibility in vessel deployment, able to take advantage of economies of scale and network coverage. These give the company a low risk profile from the investors' perspective and result in a comparatively low cost of borrowing.

These advantages are intended by the legal and contractual framework, but they largely **protect BC Ferries from meaningful competition**. There are few existing competitors against whom to benchmark BC Ferries. The market and regulatory structure does not foster the emergence of such competitors in future.

In this context, to promote **efficiency** — which helps keep down both ferry fares and the need for taxpayer funding — the commissioner's rulings

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[1] Except for the First Performance Term which was five years ending on March 31, 2008.

aim to provide incentives to BC Ferries to deliver ferry service in an efficient fashion while maintaining the required priority on its financial sustainability.

Prior to Bill 20 amendments outlined below, the Act required BC Ferries, in each performance period, to submit to the commissioner a plan to **seek additional or alternative service providers** (ASPs) — and then to execute that plan. ASPs could **serve on BC Ferries routes under subcontract**, if they could reduce the costs of ferry operations.

Commission Probes

Overall, the commissioner is alert for information, either from its own observations or from the public, suggesting how performance, service quality, efficiency or productivity of ferry operations could be improved. The commissioner may decide to launch a probe on any topic of interest to it, in which the ferry operator is legally required to answer the commissioner's questions and comply with any resulting orders, with no appeal.

New Responsibilities for the Commissioner

Bill 20, amending the Coastal Ferry Act, received Royal Assent on 3 June 2010. Four of its provisions are of special note:

- **Public feedback and the interests of ferry users now explicit considerations**. Public feedback and the interests of ferry users, which were previously not mentioned in the Act's section on regulatory principles, are now to be considerations in the commissioner's regulation of BC Ferries.
- **Reservation fees now regulated**. Until now, the Act prohibited reservation fees from regulation. Yet BC Ferries' had monopoly control of both amount and price of reserved space on its major routes. The commissioner had voiced its concern about potential abuse. In practice, BC Ferries has not exploited its position. Nonetheless, this amendment closes a loophole. Implementation is straightforward.
- **New regulation of unfair competitive advantage**. This new provision followed BC Ferries' entry into the existing market for carrying "drop trailers" across Georgia Strait. If the commissioner finds BC Ferries is handling "competitive" traffic, it must then ascertain whether it has an unfair competitive advantage. If the commissioner so finds, it must order BC Ferries either (1) to provide the service through an Alternate Service Provider, or (2) charge at least a commissioner-specified minimum tariff for the service. By Order 11-01, the commissioner ruled that BC Ferries has an unfair competitive advantage and ordered it to charge a commissioner established minimum tariff. The commissioner's decision in this matter is subject to an appeal on a question of law.
- **Strengthened Alternative Service Provider (ASP) provisions**. The Act changes the interplay between BC Ferries and the commissioner under the section 69 search for ASPs on BC Ferries' routes. As amended, section 69 now requires BC Ferries to seek ASPs only

where so ordered by the commissioner but no such orders were issued during the past year.

3 Activity Summary

Commissioner Activities in FY 2010/11

1. **Regulation of Ferry Fares**
   - confirmed actual fares were within caps during the year
   - refined the fuel surcharge mechanism to respond more quickly to fuel price changes
2. **Regulation of Service Levels**
   - confirmed that BC Ferries delivered contracted round-trips
3. **Special Decisions**
   - monitored BC Ferries' Alternative Service Providers Plan
4. **Enforcement**
   - monitored BC Ferries public reporting
5. **Publication and Outreach**
   - maintained records, published decisions, and communicated with the public and stakeholders
   - attended meetings with stakeholder groups
6. **Administration and Reporting**
   - operated an office, obtained support services and consulting advice

The commissioner's activities fall into **six headings** shown on the left. These headings are taken from the Commission's Service Plan and Budget for the year ending March 31, 2011, published in September 2009. The core ongoing activities are in headings 1 and 2: the **regulation of fares** through the price cap mechanism, and the **regulation of service levels**. Under regulation of fares, in addition to the quarterly monitoring of price cap compliance, the commissioner was focused for most of the year on the process for determining the preliminary price caps for the next performance term commencing April 1, 2012 and ending on March 31, 2016. The commissioner's decision was published on March 31, 2011.

Special decisions under heading 3 include pre-approval of major capital deployments (e.g. new ships), regulation of unfair competitive advantage and the approval of the customer complaints process. There were no applications for pre-approval of major capital deployments during the year. There was considerable activity in the regulation of unfair competitive advantage and to a lesser extent the approval of BC Ferries' customer complaint process. This heading also includes overseeing opportunities for possible alternate service providers. The commissioner found no reason to undertake **enforcement** action (under heading 4).

Two further activity areas were to inform the public about the commissioner's role (under heading 5 - **publication and outreach**) and maintaining routines and procedures under **administration and reporting** under heading 6. Readers will find **more detail** in the table on the following pages. It lays out the commissioner's **planned versus actual activities** under the same headings, keyed to the relevant section number of the Act. .

By far the two most important activities of the commissioner during FY 2010/11 was the decision regarding unfair competitive advantage in relation to BC Ferries' drop trailer service (Order 11-01) and the preliminary price cap decision for the next performance term (Order 11-02).

4 Activity Detail

This section takes the list of planned activities from the Commission's 2010/11 Service Plan and offers a detailed description of actual activities.

Activity number	Coastal Ferry Act section	Activity Description	Actual Activity in FY 2010/11
1.0	**Regulation of Ferry Fares**		
1.1	39	Monitor how weighted average price is calculated	
		The Commission will monitor the functioning of the Average Fare Model. This was developed in collaboration with BC Ferries in 2003/04 as the key measuring tool for judging whether BC Ferries' weighted average fares are within the price cap established by the Commission. The model requires adjustment and improvement (e.g. for changes in type and quality of source data) and cross-checking from time to time. Where necessary, the operation of the model will be externally validated.	The Commission considered various observations and concerns offered by BC Ferries on the behaviour and usefulness of the Average Fare Model. A technical adjustment was approved for the calculation of the weighted average fare to be consistent with the methodology of calculating the price caps. The commissioner will conduct an audit after one year to assess the effectiveness of this adjustment.
1.2	38,65	Review BC Ferries quarterly reports on price cap compliance	
		The Commission will specify contents required in BC Ferries annual reports respecting fare levels for each route group. The Commission will determine if the weighted average of the tariffs charged for each route group, as measured using the Average Price Model are within the price cap established, and if not make appropriate orders.	On April 1, 2010 the price caps increased by 2.68% on the major routes and 5.58% on all other routes. Also on April 1, 2010, a fuel rebate of 2% of tariffs on average was implemented on the major routes at which time rebates of 5% on the minor routes and 2% on route 3 (Horseshoe Bay to Langdale) were in effect. On August 17, 2010 the fuel rebates on the minor routes were reduced to 2% and eliminated completely on December 1, 2010 due to the rising cost of fuel. No rebates were in place on the northern routes during the year due to no surcharges being applied previously. The Commission reviewed BC Ferries' quarterly reports comparing the actual weighted average fare for each route group with the price cap for that group. The Commission found the company to be in compliance.

Activity number	Coastal Ferry Act section	Activity Description	Actual Activity in FY 2010/11
1.0	**Regulation of Ferry Fares (continued)**		
			On major routes, the average fare tracked slightly above the price cap for the last three quarters of the year as permitted by the Commission. The other three route groups all had average fares tracking slightly below the applicable price cap for all four consecutive quarters.
1.3	42	Handle any BCF applications for extraordinary price increases	
		The Commission will review and consider applications by the ferry operator for extraordinary tariff/price cap increases.	BC Ferries did not submit an application for an extraordinary price cap increase during the year.
1.4	45	Adjust price cap for any service cuts/route discontinuances	
		The Commission will review service reductions or discontinuance of routes for impact on price cap and make appropriate adjustments in price cap.	The Commission did not receive applications for service reductions or route discontinuance during the year.
1.5	40, 41	Conduct price cap review for next performance term	
		The Commission will initiate price cap reviews for each performance term.	The Commission conducted its price cap review for the purpose of determining the preliminary price caps for the next performance term. The Commission determined the methodology and information requirements for BC Ferries' submission for the next performance term which was filed on September 30, 2010. After an extensive review of the information submitted by BC Ferries, the Commission published its decision on the preliminary price caps for the next performance term on March 31, 2011.
2.0	**Regulation of Ferry Service Levels**		
2.1	38,65	Review BC Ferries quarterly reports on service level	
		The Commission will specify the format of, and review quarterly reports of BC Ferries as the ferry operator to determine if it is meeting the contract service requirements.	The Commission reviewed BC Ferries' quarterly reports on on -time performance, overloads, and sailings provided relative to their contract with the provincial government. The Commission sought and received satisfactory explanations to various questions raised relative to these reports.
2.2	38,66	Review BCF annual reports on service level	
		The Commission will specify the format of, and review annual reports of BCF to determine if it is meeting contract service requirements. It will also review BCF's annual customer satisfaction survey, which must be provided under terms of the CFSC.	The Commission reviewed BC Ferries' annual report for the year ended March 31, 2011, as well as the annual customer satisfaction survey. Based on a review of the annual report and the survey, the Commission concluded that BC Ferries has met its obligations under their Coastal Ferry Services Contract with the provincial government.

Activity number	Coastal Ferry Act section	Activity Description	Actual Activity in FY 2010/11
2.0	**Regulation of Ferry Service Levels (continued)**		
2.3	43	Handle any BCF applications for service reductions	
		Review and consider any applications by the ferry operator for reductions in service (temporary reductions would occur immediately).	No applications for reduction in service were submitted during the year.
2.4	44	Handle any BCF applications for route discontinuance, possibly hold hearing	
		Review and consider any applications to discontinue a route.	No applications for route discontinuance were submitted during the year.
3.0	**Special Decisions**		
3.1	45.1	Regulation of Unfair Competitive Advantage	
		If the commissioner determines that a ferry operator is offering a competitive service, the commissioner must then determine if the ferry operator has an unfair competitive service.	In August 2010, the commissioner determined that BC Ferries's drop trailer service was a competitive service. Subsequently, by Order 11-01, the commissioner ruled that BC Ferries has an unfair competitive advantage and ordered it to charge a commission-established minimum tariff. The commissioner's decision in this matter is under appeal.
3.2	45.2	Approval of Complaints Process	
		Each ferry operator must obtain the approval by the commissioner of its complaints process.	By Memorandum 40 dated January 31, 2011, the commissioner approved BC Ferries' customer complaints process for the current performance term. The process was conditionally approved for the next performance term subject to BC Ferries satisfying the commissioner that certain consultation and communication processes are being improved.
3.3	55	On ferry operator's request, decide if a proposed capital deployment is reasonable	
		If a ferry operator makes an application, the Commissioner will consider a proposed capital deployment or capital expenditures in connection with a route or terminal to determine if they are reasonably required. Consultants of various specialties will be engaged to undertake a "process audit" of the BC Ferries' analysis.	BC Ferries made no applications for a ruling under this section during the year.
3.4	38(4)	Deregulate a ferry route if competition sufficient	
		Make a determination of removing designation for a route upon which sufficient competition exists so that regulation of that route is unnecessary.	There was no activity in this area.

Activity number	Coastal Ferry Act section	Activity Description	Actual Activity in FY 2010/11
3.0	**Special Decisions (continued)**		
3.5	69	Review BCF's Plan to Seek Alternate Service Providers (ASPs)	
		Monitor the market for ferry services with a view to encouraging competition for BCF; monitor BCF implementation of its Additional and ASPs plans for Performance Term Two.	The Commission continued monitoring BC Ferries' activities in implementing its plan for performance term two.
4.0	**Enforcement**		
4.1	38(2)	Monitor BCF reporting to the public	
		Observe how BC Ferries reports on its own performance on pricing fares under the price cap, and on its contracted versus actual delivery of service levels.	BC Ferries publishes its tariffs or fares in print and on its website while the Commission publishes on its website and in its annual report the average fare levels compared with price caps for regulatory purposes.
4.2	46	Inspect BCF records as required	
		Order inspections of the records of the ferry operator as necessary.	No activity was necessary.
4.3	48	Issue orders to BCF regarding non-compliance with the law as required	
		Issue orders for non-compliance with the legislation as necessary.	No activity was necessary.
5.0	**Publication and Outreach**		
5.1	52	Maintain Commission records, provide public access	
		Files will be maintained accessible to the public under the Freedom of Information and Protection of Privacy Act. Response to public enquiries will be made via telephone, postal mail, and e-mail. A web site will be maintained and regularly updated as needed, preferably at least monthly.	The Commission maintains electronic and paper records of its activities through the reporting period. No requests were received under the *Freedom of Information and Protection of Privacy Act*. On September 30, 2010, the Commission announced a 30-day period for public comments regarding BC Ferries' submission on its **drop trailer services** offered on its major routes by placing notices in the major dailies and on its website. The Commission also notified its existing contacts by email. In total, 25 responses were received. During the reporting period, 36 people wrote to or telephoned the commissioner with comments, questions or information requests. This resulted in 72 pieces of correspondence. Every correspondent received a reply, returned telephone call or information if requested. Occasionally, matters were directed to BC Ferries for a response when issues fell outside the Commission's mandate. A database of correspondents and their comments was maintained and reviewed regularly.

Activity number	Coastal Ferry Act section	Activity Description	Actual Activity in FY 2010/11
5.0	**Publication and Outreach (continued)**		
			On April 1, 2011, as required under the Act, the Commission again announced a 90-day period for public comments on its **preliminary price cap decision** by placing notices in the major dailies, Black Press and other independent newspapers in ferry-dependent communities. In total, 262 responses by email; 690 signatures on letters from Pender Island business owners, residents and visitors; and nine letters by post were received. Members of the public contacted the Commission by visiting its website at www.bcferrycommission.com; directly through e-mails; telephone calls or by subscribing to receive updates by emails. Members of the public on the Commission's electronic database that receive updates totaled almost 880 individuals. During the reporting period, as in previous years, almost half of the correspondence received was in regard to the cost of ferry travel and service quality, including service delays, and more recently, on the change in BC Ferries' assured loading ticket policy, and on the change to the tariff structure on extra length charges for vehicles beyond 20 feet in length (replaced over-height rates except on Northern Routes). In July 2011, the Commission launched its new website. To date, there have been almost 1,100 visits to the Commission's website. At least 30 per cent of stakeholders visit the site two or more times. In addition, the Commission launched a Twitter account as a means of providing timely updates to stakeholders that have signed on to this service.
5.2	52	Publish decisions / determinations / orders / proceedings	
		The Commissioner will publish every decision, determination and order in a manner that the Commissioner believes will bring it to the attention of the public. All such items will be published on the Commission's website, at a minimum.	All decisions, determinations and orders were published on the Commission's website with explanatory text, and question-and-answer information as required.
5.3	N/A	Communicate with public and stakeholders	
		The Commission will actively communicate its role and responsibilities to the public; make appearances in the media; make presentations and speeches to stakeholder groups.	During the year, the commissioners attended meetings with the public and stakeholders as follows: Chairs of the Ferry Advisory Committees (one meeting); one annual public meeting of BC Ferries in Vancouver; one meeting with BC Ferries Board of Directors with formal remarks; and several meetings with senior officials in the Ministry of Transportation and Infrastructure. The Commissioners were also interviewed on several occasions by print and broadcast media.

Activity number	Coastal Ferry Act section	Activity Description	Actual Activity in FY 2010/11
6.0	**Administration and Reporting**		
6.1	36	Operate office and engage external support services	
		Operate the Office of the Commission. Maintain arrangements for telephone, mail and electronic access. Rent office space as required. Maintain office operations (secretarial, phone, courier, post, internet, web site). Office equipment to be dedicated to Commission use. Work with the Office of the Attorney General as provider of payment system on behalf of the Commission. Obtain internal bookkeeping, archiving, and legal services as required.	The Commission operated a virtual office. Accounting and payment system was provided by Office of the Attorney General at no charge to the Commission. Independent legal advice during the year was not required. An independent contractor was engaged to develop the Commission's communication and outreach plans and to assist with public correspondence.
6.2	N/A	Research background to ferry operating environment	
		This activity is the Commissioner's ferry system familiarization and background study. Research and investigations to be initiated by Commission.	The commissioner and deputy commissioner continued their efforts to travel all ferry routes in person. Routes travelled in the past year included the Sunshine Coast routes, the Powell River to Comox route and the mid-coast routes.
6.3	69	Prepare Commission's annual budget	
		Budget will include expenditures reasonably expected to be incurred in the following year, supported by a Service Plan for the year.	The Commission's Annual Service Plan and Budget for 2011/12 was submitted to the Minister of Transportation and Infrastructure and BC Ferries on or before September 30, 2010 as required.
6.4	53	Report annually to Lieutenant-Governor in Council	
		Within four months after the end of each fiscal year, the Commissioner will make a report to the Lieutenant-Governor in Council for the preceding fiscal year.	The Commission's 2010/11 Annual Report was submitted to the Lieutenant-Governor in Council on July 31, 2011 as required and outlines briefly: 1. all applications and requests for decisions to the Commissioner under the Act where applicable; 2. all orders issued by the Commissioner where applicable; 3. the financial statements applicable to the Office of the Commissioner for that year along with full disclosure of the expenses of, and associated with, the Office of the Commissioner; and other information the Lieutenant-Governor in Council directs where applicable.

5 Average Fare Levels

The table below shows the values of a price cap index (=100 at 2003) and compared to an index of actual weighted average fares, for each of four groups of routes in the BC Ferries system (amalgamated from seven groups used in the Performance Term One which ended March 31, 2008).

The values for the indices are computed by methods laid down in Commission Order 05-01 and are based on trailing four-quarter data. They exclude extraordinary increases allowed in performance term one due to high fuel prices, which are separately measured and tracked.

BCFerries

Average Fare Index Summary

Route Group		Jun-2009	Sep-2009	Dec-2009	Mar-2010	Jun-2010	Sep-2010	Dec-2010	Mar-2011
Majors									
	Cap	**134.45**	**136.15**	**137.26**	**138.24**	**139.18**	**140.38**	**141.21**	**141.94**
	Actual	[illegible]	135.65	136.51	137.55	138.50	[illegible]	[illegible]	[illegible]
Route 3									
	Cap	**145.78**	**149.14**	**151.54**	**153.60**	**155.83**	**158.64**	**160.63**	**162.33**
	Actual	143.33	145.75	146.49	148.76	151.12	154.43	155.87	157.01
Northern									
	Cap	**149.96**	**156.25**	**157.27**	**158.11**	**160.16**	**165.42**	**166.33**	**167.09**
	Actual	144.69	148.39	149.27	150.42	153.98	160.45	160.33	160.69
Minors									
	Cap	**151.76**	**155.42**	**157.77**	**159.86**	**162.26**	**165.29**	**167.27**	**169.04**
	Actual	151.40	155.34	157.20	158.80	160.92	163.20	163.71	164.67

The Commission's policy allows BC Ferries to exceed the cap (highlighted in yellow) for no more than three consecutive quarters. This ensures that the company does not retain revenues earned at above-cap prices.

As seen above, BC Ferries exceeded the price cap on the major routes for three consecutive quarters ending March 31, 2011. BC Ferries has introduced Coast Saver promotions in the first quarter of fiscal 2011/12 and the commissioner expects BC Ferries to be in compliance for this quarter. Because BC Ferries did not exceed the price cap for more than three quarters on any route group during FY 2010/11, the company was in compliance with price caps during the year.

6 Financial Statements

Accounting Services

The Commission is grateful for the assistance of the Ministry of the Attorney General which provides accounting, banking and payment services at no cost to the Commission. These financial statements are based upon the financial information provided by the Ministry.

Summary Financial Statements

BC Ferry Commission
Summary Financial Statements
(In $ thousands)

FY	2010/11 Budget	2010/11 Actual	2009/10 Actual
Statement of Operation			
Revenues	448	200	49
Expenditures			
Operating Costs	448	410	113
Surplus (deficit)	0	(210)	(64)
Change in Net Assets			
Opening balance		85	149
Surplus (Deficit)		(210)	(64)
Net Assets end of year		(125)	85

Revenues

Revenues consist of a percentage levy on toll revenues from ferry operators. In fiscal year 2010/11, the total paid to the Commission by BC Ferries, the only ferry operator regulated by the Commission, was $200,000. The shortfall in revenues reflects a timing difference in receipt of payments from BC Ferries to cover the costs of the Commission.

Expenditures

Expenditures in fiscal 2010/11 were $410,000. Expenditures were for commissioners' fees and expenses and for the cost of consultants engaged to assist and advise the Commission. Expenditures, as budgeted, were substantially higher than the previous year due to preliminary price cap

decision and the regulation of an unfair competitive advantage for BC Ferries in relation to its drop trailer service.

The Coastal Ferry Act s.58 allows the commissioner a budget which does not exceed the total of the following:

1. for each quarter, if any, of that fiscal year in which the commissioner is to take any action under section 40, 1/20 of 1 per cent of the previous year's tariff revenue;
2. for every other quarter of that fiscal year, 1/40 of 1 per cent of the previous year's tariff revenue.

Section 40 of the Act concerns establishment of price caps for subsequent performance terms. The Commission was active under section 40 during the every quarter of fiscal 2010/11, so that paragraph (a) above is applicable for the entire year.

BC Ferries' tariff revenue was $450.5 million (i.e. excluding retail and other ancillary revenue and service fees) for fiscal 2009/10. The cost of operating the Commission in 2010/11 represented 0.099 per cent of the previous year's tariff revenue, or less than one half of the budget maximum.

Commissioner Remuneration

The commissioner and deputy commissioner are paid a per-diem fee for their services. The commissioner received $115,088 in fees during the year. In addition he was reimbursed $8,346 for expenses incurred during the year, including travel, dedicated office equipment, office supplies, telephone, web site and other communications expenses. The deputy commissioner received $81,600 in fees for his services and was reimbursed $8,284 for travel and other expenses incurred in the period.

Net Assets

The difference between the amounts received from ferry operators and expenditures is carried forward for use in the next fiscal year. The Net Assets of the Commission are included in the Financial Statements of the Province of British Columbia.